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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED
DECEMBER 31, 1939

CORPORATE OFFICES

The Merchandise Mart
222 North Bank Drive : Chicago, Illinois

BOARDS
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MRB
CORP. FILE

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 Incorporated in 1901

BOARD OF DIRECTORS

FREDERICK D. CORLEY
MARSHALL FIELD
STANLEY FIELD
HUGHSTON M. McBAIN
CHARLES H. SCHWEPPE
JAMES SIMPSON, JR.
ALBERT A. SPRAGUE
JOHN P. WILSON

OFFICERS

President
FREDERICK D. CORLEY

First Vice-President
HUGHSTON M. McBAIN

Vice-Presidents
CHARLES C. BUNKER
PERCY WILSON

Secretary and Treasurer
EARL KRIBBEN

Comptroller
KENNETH E. ARMSTRONG

Assistant Secretary
HOWARD M. PACKARD

Assistant Comptroller
EARLE L. BROWN

Assistant Treasurer
GERALD A. SIVAGE

Assistant Comptroller
FREDERICK R. ATCHESON

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO
GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO
BANKERS TRUST COMPANY
NEW YORK

In Memoriam

James Simpson

1874 - 1939

Marshall Field & Company sustained a great loss on November 25, 1939 through the untimely death of Mr. James Simpson, who had given almost fifty years of his business life to the service of the Company.

The following memorial was adopted at the meeting of the Board of Directors held December 20, 1939:

"The Directors of Marshall Field & Company wish to express their deep sense of grief and loss, together with their love and esteem for the memory of their friend and associate,

JAMES SIMPSON

who, as President, Chairman of the Board of Directors, and Chairman of the Executive Committee, was to each and every one of them an honored associate and a close personal friend.

"Their many years of association with him are amongst their pleasantest memories, and his accomplishments bear witness to his character.

"There was something essentially solid about him, and it was always known where he stood. He always inspired confidence when he had arrived at a conclusion and had taken a position on any question within the range of his interests and experience. Altogether he was a rare man, and much as he was admired as a man of affairs, his friendship was even more valued for there was real warmth and tenderness in his nature.

"Vision and service make a great man, and never has this been more truly illustrated than in his contribution to the business he loved and did so much for, as it was also in his contributions to the community in which he had such confidence.

"His wise counsel, his good example, and his generous gifts brought more to the community than we can realize, and he had to the fullest extent the confidence, respect and affection of his fellow citizens.

"This mark of our respect and love is sent to his widow, Jessie McLaren Simpson, and his sons, James Jr., John McLaren, and William. Their loss, while deeper than ours, unites us in our grief. We mourn his going."

TO THE STOCKHOLDERS:

The Board of Directors submits this annual report for the year ended December 31, 1939.

Operating results for 1939 showed a material improvement over those for 1938, each division of the business increasing its net operating profit for the year. The results of the two years compare as follows:

	1939	1938	Increase
Retail Division	$5,320,933	$3,940,099	$1,380,834*
Manufacturing Division	725,319	138,165	587,154
Real Estate Division	385,806	209,968	175,838*
Profit from operations before interest and special charges	$6,432,058	$4,288,232	$2,143,826
DEDUCT—			
Interest charges	$ 845,500	$ 612,257	$ 233,243
Special compensation under stock option agreement	—	33,737	33,737**
Provision for Federal income taxes	950,000	150,000	800,000
Net profit for year	$4,636,558	$3,492,238	$1,144,320

**The abatement of rentals, explained on pages 6 and 7, accounted for approximately $528,000 of the Retail Division increase and approximately $47,000 of the Real Estate Division increase.*
***Indicates a decrease.*

Earnings for 1939, based on the capitalization after completion of the recent financial reorganization, and after provision for present preferred dividend requirements, are equivalent to approximately $1.92 per share on the 1,943,763 Common Shares outstanding. Earnings for 1938 on the same basis, for comparative purposes, were approximately $1.33 per Common Share. Earnings on the 150,000 preferred shares of both series now outstanding were $30.91 per share for 1939 as against $23.28 per share for 1938.

These earnings were divided into quarterly periods as follows:

	1939	1938
First Quarter	$ 428,184	$ 381,815
Second Quarter	607,051	221,586
Third Quarter	683,223	485,697
Fourth Quarter	2,918,100	2,403,140
Total for year	$4,636,558	$3,492,238

Merchandise sales and real estate income by quarters were as follows:

	1939	1938	% Improvement
First Quarter	$18,049,598	$18,031,081	.1%
Second Quarter	19,619,146	18,623,416	5.4%
Third Quarter	20,201,408	18,938,926	6.7%
Fourth Quarter	28,903,769	26,686,493	8.3%
Total for year	$86,773,921	$82,279,916	5.5%

RETAIL DIVISION

No changes were made during the year in the number of units in the Retail Division, which consists of our Chicago store, three suburban stores in the Chicago area, Frederick & Nelson, Seattle, Washington, and two small stores, in Chicago Heights, Illinois, and Watertown, South Dakota.

The net profit of the Retail Division showed a considerable improvement over the results achieved in 1938, due not only to increases in sales volume and in gross profit percentage, but to a considerable overall decrease in operating expenses. Our payroll was larger and average wage payments higher than in the previous year.

The improved sales volume was accounted for by a moderate increase in the size of our average sales check and also by a further increase in the number of transactions, which for December was again the largest in the history of the Chicago and suburban stores. Our decreased expenses during the year were occasioned by the saving in rental charges resulting from the purchase of the land underlying our Chicago store, which is commented upon in greater detail on pages 6 and 7.

Our stocks of merchandise were in satisfactory condition at the year end, both as to amount and character, and our accounts receivable were in excellent condition. Collections throughout the year continued on a generally high level, and reserve provisions for doubtful accounts are on an adequate basis in the light of our past experience and prospects.

The experiences of our Chicago store and Frederick & Nelson were generally similar during the year, improved business conditions in Chicago and the Northwest contributing materially to the better profit showing. Our suburban stores in the Chicago area continued to contribute most satisfactorily to the earnings of the division.

We are hopeful that the currently held belief that consumer purchasing power will continue at a high level throughout 1940 proves to be an accurate one. It will be our aim to prevent undue increases in the price levels of retail merchandise, which would have the effect of diminishing the ability of the public to purchase consumers goods.

MANUFACTURING DIVISION

The Manufacturing Division's 1939 operations resulted in a material increase in net profits over those realized in 1938. Both orders received and sales to customers showed improvement over the previous year, and unfilled orders at the year end were approximately 41% greater than at December 31, 1938.

Our better showing was due to an increase in sales volume, an improvement in gross profit percentage, and to organization changes and expense reductions initiated

early in 1938. These factors had produced better results prior to the declaration of war in Europe on September 3, and were even more effective under the conditions existing during the later months of the year. The Manufacturing Division, more than any other division of the Company, was affected by the immediate wave of buying that followed the outbreak of European hostilities. The rate of demand for textiles late in the year indicated, however, that the large volume of orders booked in September and October were in the main only the advance placement of normal domestic requirements. There has been an encouraging increase in orders received in 1940 to date.

The textile industry, generally, experienced a reasonably good year, and for the first eight months there were no important price fluctuations in raw cotton and raw wool, which are the two principal commodities we use. The prices of raw materials increased sharply immediately after September 1, but as usual the sales prices of finished products rose less rapidly. We endeavored and will continue to try to adjust our selling prices to conform with fluctuations in raw material costs.

There were no material changes in the lines manufactured or in our manufacturing properties during the year, and no major changes are planned for 1940. The principal products manufactured are blankets, towels, bedspreads, sheets, Karastan Rug Mill products, and Zion lace curtains, all of which are distributed through our own sales organization. We are also manufacturing woolen piece goods, rayon gray goods, and women's silk hosiery, and distributing them through selling agents. At the year end there were more than 5,700 people on our payroll in this division.

We have continued to follow conservative inventory policies throughout the year, and at the close of 1939 our inventories of raw materials, work in process, and finished goods were only moderately higher than those of a year before, despite the large increase in unfilled orders on our books. At the year end our future commitments for raw materials were in our opinion in no way excessive or beyond normal requirements.

REAL ESTATE DIVISION

The Real Estate Division consists of The Merchandise Mart, the "Annex" Office Building at Wabash Avenue and Washington Street, Chicago, and several small miscellaneous properties.

The continued aggressive promotion of The Merchandise Mart was mainly responsible for the further improvement in the net earnings of the Real Estate Division. Increased operating income and further operating economies permitted The Mart to show the best operating results of any year to date.

During the year 112 new leases were executed, producing an annual income in excess of $200,000. In addition, 224 expiring leases were renewed on a higher average rental basis, and 71 tenants increased their quarters by approximately 98,000 square

feet. At the year end The Mart was over 82% leased, as against approximately 80% a year earlier, with Company occupancy remaining substantially unchanged.

A substantial amount of previously unfinished space was totally or partially completed to provide for the influx of new tenants. In this connection, a decorative arts center was established on the sixth floor, and important progress was registered in other lines, notably women's apparel.

Buyer attendance at market events in the year 1939 broke all previous records. Buyer registrations improved 7% over those of 1938, and buying visits to the building were estimated at 9% over those of the previous year, which had been the former high point.

The "Annex" Office Building's operating results were benefited by abatement of its land rental through the purchase of the land it occupies.

FINANCIAL MATTERS

During 1939 two major financial objectives were attained, the reorganization of our capital structure and the elimination of large lease obligations. In the opinion of the directors and officers of the Company, the accomplishment of these ends will be of great benefit to the Company from all points of view, and has placed us in a very much sounder position.

The financial reorganization consisted of the exchange of 108,984 shares of the former 6% Cumulative Preferred Stock for 54,492 of the newly issued 6% Cumulative Preferred Shares, Second Series, and 299,706 additional Common Shares, pursuant to a Plan of Reorganization approved by a large majority of each class of stockholders at a special meeting held on December 4th. After the Plan of Reorganization was approved, the Board of Directors determined that the Company's cash position was sufficiently strong to permit the purchase of 82,733 additional 6% Cumulative Preferred Shares at $83.50 a share, after dividend arrearages were paid, and such purchase was made and the stock retired. The combined result of both of these actions was a reduction in the par value of outstanding preferred stock from $28,722,500 to $15,000,000, and a reduction in annual preferred dividend requirements from $1,723,350 to $900,000. In addition, 8,965 shares of 7% Prior Preferred Stock were called for redemption earlier in the year.

Also of outstanding importance was the purchase of the land underlying our Main Retail Store and our Annex Building for $15,000,000, the purchase being financed by the issuance of a like amount of 3.6% First Mortgage Sinking Fund Bonds. This purchase terminated leases under which approximately $90,000,000 of rent would have been payable over the next eighty-five years, and had the immediate effect of eliminating fixed rental charges of $950,000 a year, which charges would ultimately have increased to $1,150,000 a year. Against this saving there must be offset an added annual interest

charge of $540,000, which will decrease semi-annually as sinking fund payments reduce the principal amount. The purchase of this land is in effect being made out of actual net savings, which, after provision for Federal income taxes at the current rate, began at the annual rate of about $336,000 a year and will average about $490,000 a year over the twenty-year term of the bond issue. The 1939 operations reflect only part of the first year's savings, as the land purchase was not consummated until May 24.

The financial reorganization, the retirement of preferred stocks, and the termination of the leases, eliminated annual fixed charges of approximately $1,222,000. This is an advantage which did not formerly exist for the common stock.

Dividend distributions of $2,623,833 were made during 1939, which paid all dividends due on the 7% Prior Preferred Stock to retirement date; paid $9.00 per share accumulations on those 6% Cumulative Preferred Shares not exchanged pursuant to the Company's offer; paid the fourth quarter dividend of $1.50 per share on both series of preferred shares outstanding after the reorganization; and paid a 30 cent per share year-end dividend on the common stock.

During the year two lawsuits which raised certain questions concerning the employment contract between the Company and the late Mr. James O. McKinsey were concluded in a manner satisfactory to the Company. The court found the contracts to be valid and overruled the objections of certain minority stockholders, whereupon the sum of $313,737 was paid and the matter concluded.

The Company's cash position at the end of the year was adequate to its needs, as was its working capital position, with a ratio of current assets to current liabilities of approximately 3.4 to 1.

The Company's tax burden continued during 1939 at approximately the same high level commented upon in previous reports. Our total tax expense for the year of approximately $4,196,000, exclusive of Federal income and excess profits taxes, amounted to about five cents for every dollar of net merchandise sales. This constituted $27.98 per share of preferred stock of both series, or $2.16 per share of common stock, now outstanding.

During the year certain losses resulting from the operation of subleased properties not used or needed in the business were charged to a reserve previously created for that purpose and referred to in prior annual reports. The balance of $957,819 in such reserve at the year end is considered ample for the purpose.

The Company has adopted all the recommendations of the Committee on Stock List of the New York Stock Exchange with respect to certain corporate procedures by listed corporations, which are calculated to strengthen the position of the independent public accountant in his relationship to the Company's affairs and to define and increase the responsibilities of the Comptroller.

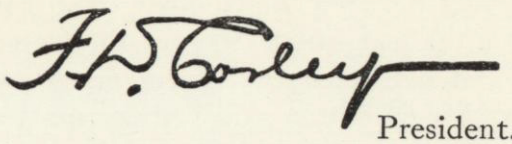
PERSONNEL

Mr. Wilbur C. Munnecke, Retail Operating Manager, was transferred to New York and placed in charge of the Manufacturing Division, and Mr. Earle L. Brown was appointed comptroller of this division. There were no other important changes in our operating organization during the year.

The favorable results which continued throughout the year would not have been possible without the hard and intelligent work and the loyal and harmonious spirit of our entire organization. Improved business conditions made it possible for us to increase the number of our employes during the year and to pay a higher level of wages, which was a source of gratification.

We are grateful for the support and cooperation of all of our stockholders, customers and employes, and invite their constructive suggestions toward the end of continued improvement in our methods and operating results.

By order of the Board of Directors,

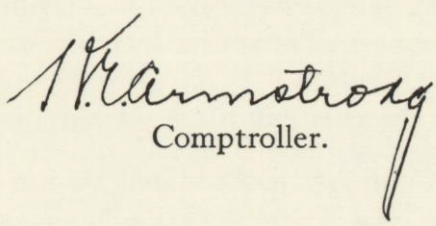


President.

February 14, 1940.

To the Stockholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to the best of my knowledge and belief.



Comptroller.

February 8, 1940.

ARTHUR ANDERSEN & CO.

135 SOUTH LA SALLE STREET
CHICAGO

To the Stockholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation), as of December 31, 1939, and the statements of profit and loss, surplus and reserves for the year ended that date. In connection therewith we have examined or tested accounting records of the company and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the company by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In our opinion the accompanying balance sheet and related statements of profit and loss, surplus and reserves fairly present the financial position of Marshall Field & Company at December 31, 1939, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the company on a basis consistent with that of the preceding year.

Chicago, Illinois,
February 8, 1940.

ARTHUR ANDERSEN & CO.

Statement of Profit and Loss
For the Year Ended December 31, 1939

NET SALES TO CUSTOMERS			$84,029,380
COST OF SALES AND OPERATING EXPENSES			77,983,128
Net profit from merchandising operations			$ 6,046,252
PROFIT FROM REAL ESTATE OPERATIONS:			
Rental income from tenants		$ 2,744,541	
Operating expenses, less rentals charged to merchandising divisions		2,358,735	385,806
Net profit from operations before interest charges, etc			$ 6,432,058
INTEREST CHARGES AND FEDERAL INCOME TAXES:			
Interest charges on—			
First Mortgage Serial Bonds	$ 520,000		
First Mortgage Twenty-Year Sinking Fund Bonds	325,500	845,500	
Provision for Federal income and excess profits taxes		950,000	1,795,500
Net profit for the year			$ 4,636,558

NOTES:

(1) Provisions for depreciation of buildings and equipment and amortization of leaseholds included as deductions amount to $2,464,282.

(2) Provisions for real estate, personal property, social security, franchise, occupation and other taxes, included as deductions, amount to $4,196,288.

BALANCE SHEET–

ASSETS

CURRENT ASSETS:			
Cash (see Note)		$ 5,764,999	
Tax anticipation warrants		35,342	
Receivables—			
Accounts receivable from customers	$10,599,777		
Rents, claims, and miscellaneous receivables	519,737		
	$11,119,514		
Less—Reserve for doubtful accounts, etc	493,388	10,626,126	
Merchandise inventories, priced at the lower of cost or market—			
Manufacturing Division merchandise, including $2,235,519 of raw materials and work in process	$ 3,698,403		
Retail Division merchandise	9,148,248	12,846,651	
TOTAL CURRENT ASSETS			$29,273,118
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC			684,419
INVESTMENT SECURITIES, RECEIVABLES, ETC.:			
Securities and cash deposited under construction agreements		$ 156,007	
Miscellaneous investments, receivables, etc		367,933	523,940

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization	Net	
Retail and manufacturing properties, etc.—				
Land	$16,308,803	—	$16,308,803	
Leaseholds	881,846	$ 224,117	657,729	
Buildings and building equipment	22,980,426	10,800,453	12,179,973	
Equipment	13,101,700	7,849,015	5,252,685	
Merchandise Mart—				
Air rights and land	2,907,462	—	2,907,462	
Building and equipment	27,907,966	6,206,046	21,701,920	
TOTAL FIXED ASSETS	$84,088,203	$25,079,631	$59,008,572	59,008,572
GOODWILL, TRADE-MARKS, ETC				1
				$89,490,050

NOTE: On December 4, 1939, the Company offered to purchase not to exceed 82,733 of its 6% Cumulative Preferred Shares at a price of $83.50 per share; pursuant to that offer 12,000 shares were acquired prior to December 31, 1939 at a cost of $1,002,000 and 70,733 shares were acquired on January 5, 1940 at a cost of $5,906,205; a certificate of reduction of capital for the retirement of such shares was filed on January 8, 1940. This balance sheet gives effect as at December 31, 1939 to the application of $5,906,205 of cash for the purchase of 70,733 shares and to the retirement of all such purchased shares.

DECEMBER 31, 1939

LIABILITIES

Current Liabilities:			
Accounts payable—			
Trade creditors	$ 2,554,316		
Sundry accounts payable	379,782	$ 2,934,098	
Accruals—			
Salaries and wages	$ 970,243		
Local and miscellaneous taxes	2,409,541		
Interest on funded debt	311,667		
Other accrued expenses	308,193		
Federal income and excess profits taxes	1,082,800	5,082,444	
Current sinking fund payments required on funded debt		650,000	
Total Current Liabilities			$ 8,666,542
Funded Debt:			
First Mortgage Serial Bonds—			
Series One, 4%, maturing $500,000 semi-annually from May 1, 1942 to November 1, 1951, inclusive		$10,000,000	
Series Two, 3% to November 1, 1941 and 4% thereafter, maturing $500,000 semi-annually from May 1, 1952 to November 1, 1955, inclusive		4,000,000	
First Mortgage Twenty-Year Sinking Fund Bonds, 3.6%, semi-annual sinking fund payments required from February 1, 1940 to February 1, 1959; current requirement of $650,000 included in current liabilities		14,350,000	28,350,000
Reserves:			
For loss on subleases		$ 957,819	
For contingent prior years' taxes (balance at December 31, 1938 and 1939)		826,869	1,784,688
Capital Stock and Surplus:			
Preferred shares—			
6% Cumulative Preferred Shares, of $100 par value; redeemable at $110 per share and accrued dividends; convertible until January 1, 1947 at the rate of 3.2608 Common Shares for each preferred share—			
Authorized and outstanding 95,508 shares (see Note)	$ 9,550,800		
6% Cumulative Preferred Shares, Second Series, of $100 par value; redeemable at $105 per share and accrued dividends; convertible until January 1, 1952 at the rate of 3½ Common Shares for each preferred share—			
Authorized and outstanding 54,492 shares	5,449,200	$15,000,000	
Common Shares—			
Authorized 4,000,000 shares of no par value, of which 502,154 shares are reserved for conversion of preferred shares and 180,000 shares are reserved for sale to officers and employees.			
Issued and outstanding 1,943,763 shares, at stated value		16,818,815	
Paid-in surplus		10,167,279	
Earned surplus		8,702,726	50,688,820
			$89,490,050

Statements of Surplus and Reserves

For the Year Ended December 31, 1939

Earned Surplus

Balance at December 31, 1938		$ 6,869,301
Net Profit for the Year		4,636,558
		$11,505,859
Deduct—		
Cash dividends paid on—		
Prior Preferred Stock—redeemed on or prior to September 30, 1939	$ 87,435	
6% Cumulative Preferred Shares—not exchanged in reorganization ($10.50 per share)	1,871,531	
6% Cumulative Preferred Shares, Second Series ($1.50 per share)	81,738	
Common Shares (30 cents per share)	583,129	
	$ 2,623,833	
Premium of $20 per share on 8,965 shares of Prior Preferred Stock redeemed on or prior to September 30, 1939	179,300	2,803,133
Balance at December 31, 1939		$ 8,702,726

Paid-In Surplus

Balance at December 31, 1938	$ 5,001,899
Excess of par value of 108,984 6% Cumulative Preferred Shares acquired in reorganization over the aggregate of (a) the par value of 54,492 6% Cumulative Preferred Shares, Second Series, (b) the stated value ($5.00 per share) of 284,428 Common Shares, and (c) the cost of 15,278 treasury Common Shares, issued in exchange therefor	3,800,286
Discount on 82,733 6% Cumulative Preferred Shares purchased for redemption (see note on balance sheet)	1,365,094
Balance at December 31, 1939	$10,167,279

Reserve for Loss on Subleases

Balance at December 31, 1938	$ 1,175,659
Excess of rentals, taxes, insurance, etc. paid on subleased properties during 1939 over rentals received	217,840
Balance at December 31, 1939	$ 957,819

THE MERCHANDISE MART